

MONTHLY FLASH REPORT

MAY 2022

Dear Esteemed Client,

In our bid to keep you well informed regarding key factors that affect your investments, please find below some brief highlights for the month of May 2022:

OPERATING HIGHLIGHTS

- The **kwacha** opened the month at ZMW17.03/USD1 and closed at ZMW17.28/USD1 translating into a monthly depreciation of 1.44% and Year to Date (YTD) movement of -3.65%. The local unit came under pressure as demand for the greenback outweighed supply.
 - Money **market liquidity** increased to an average of ZMW 2.64 billion from ZMW 2.24 billion while the average **interbank rate** remained unchanged at 9.00%.
- Annual **inflation** decreased for the 10th successive month to 10.2% as a result of the slowdown in price increases of both annual food and non-food items. Annual food inflation fell from 14.1% to 12.3%, while annual non-food inflation fell from 8.2% to 7.5%.
- Copper prices** on the London Metal Exchange (LME) opened at USD 9,820.25/tonne and closed the month at USD 9,500/tonne translating into a monthly depreciation of 3.26% and year to date movement of -1.98%. Copper prices fell at the start of the month as the US dollar surged to its highest level since 2002. Thereafter the red metal extended further losses as concerns grew that the global economy may plunge into a recession, which would dampen demand for industrial metals.
- May recorded a total of ten price movements on CEC Africa (32.26%), BATZ (25.33%), Zaffico (24.37%), Investrust (20%), AECI (5.71%), Zambia Sugar (3.59%), Zambia Re (0.36%), Zanaco (-3.70%), CEC (-5.33%) and Pamodzi (-14.29%). The **LuSE All Share Index** closed the month at 6,799.03 points, representing a monthly loss of -1.81% and YTD movement of +12.20%. The **LuSE Free Float Index** closed the month at 4,337.56, representing a monthly loss of -0.29% and YTD movement of +14.57%. The total number of trades registered on the LuSE was 1,649 up from 1,279 the prior month while the total turnover registered for the month was ZMW12,190,511.81 down from ZMW31,025,973 the previous month.
- Global equities** as measured by the MSCI World Index had a USD monthly loss of 0.16% (YTD -13.64%). In kwacha terms the index gained 1.28% (YTD -11.61%).

- The **T-bill auctions** were held on the 5th and 19th of May:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	300.00	178.30	178.30	9.3001	9.3001	0.0499
182	340.00	346.47	346.47	10.4999	10.4999	0.5000
273	360.00	0.38	0.38	10.9500	10.9500	0.7500
364	1,000.00	1,167.23	1,167.23	13.7500	13.7500	0.4700
Total	2,000.00	1,692.38	1,692.38			

The first auction had a subscription rate of 131.31% and allocation rate of 120.64% while the second saw subscriptions of 84.62% and allocated 84.62%, relative to the amount offered. At cost, the first auction sold 100% while the second sold 76.52%. The month ended with downward interest rate movements across the board with the exception of the 364-day T-bill which rose by 0.47 percentage points. **June auction dates:** 2nd, 16th and 30th

- The **Government bond** auction held on 27th May had the following results:

	Amount Offered	Amount Bid	Amount Allocated	Range of Accepted Bids	Range of Rejected Bids	Yield Rate (%)	Prev Yield (%)	Change (%)
2	300.00	584.15	584.15	16.00%-17.50%	Nil	17.50	17.85	(0.35)
3	400.00	607.14	607.14	18.00%-20.00%	Nil	20.00	20.00	-
5	650.00	718.30	561.90	20.00%-22.25%	25.00%-25.00%	22.50	22.50	-
7	350.00	217.84	37.84	23.00%-24.50%	26.00%-26.00%	24.50	24.50	-
10	500.00	95.470	95.47	20.00%-25.25%	Nil	25.25	25.25	-
15	400.00	61.86	61.86	24.47%-26.00%	Nil	26.00	26.00	-
Total	2,600.00	2,284.76	1,948.36					

The auction was undersubscribed with a subscription rate of 87.88% and allocation rate of 74.94%, relative to the amount offered. At cost, the auction sold 57.55%. A downward movement of 35 basis points was recorded on the 2-year tenor while all other yields across the curve remained unchanged. **Next auction:** 24th June, 2022

- The May **Purchasing Managers Index (PMI)** came in at 49.8 down from 50.5 in April. The month saw a reduction in both output and new orders on the back of customers struggling to finance new projects.

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LOOKING AHEAD

- The Bank of Zambia's (BoZ) Monetary Policy Committee (MPC) in May, held its lending rate at 9% for the second consecutive quarter, citing easing inflationary pressures as a result of a fairly stable kwacha which was in turn aided by improved metal prices, while stable domestic food production also contributed to reduced price pressures. While inflation is forecasted to continue decelerating toward the central bank's 6% - 8% target range, the upside risks to the inflation outlook still remain. These include increased crude oil prices, the possibility of lower crop production resulting from adverse weather conditions as well as lingering supply chain bottlenecks caused by the resurgence of Covid-19 in China. Sub Saharan African countries such as Kenya, Angola and Zambia where inflation has notably been slowing down or within target, are expected to leave their key rates unchanged to help support economic growth. Other countries such as South Africa which are more exposed to global markets through portfolio flows and commodity price movements are likely to hike their rates in efforts to curb inflation.
- The outlook for the Zambian mining industry remains bullish following the mining tax revisions in the 2022 national budget, coupled with copper production estimates of 1.3 million tons in 2022, as steps are taken toward achieving the target of 3 million metric tons within a decade. Copper production is expected to increase annually in efforts to benefit from higher metal prices as the conflict between Russia and Ukraine continues to disrupt commodity markets. Despite concerns surrounding lockdowns in China due to the surge in Covid-19 infections which have weighed down copper prices in recent weeks, the red metal is expected to rebound in the ensuing months amid booming electric vehicle manufacturing.
- Elsewhere concerns of high inflation, monetary policy tightening, geopolitical tensions and the possibility of a recession continue to have a negative impact on the outlook for developed economies. As peak inflation remains a major topic, the US Federal Reserve (Fed) increased interest rates by 50 basis points (bps) and signalled another 50bps hike in June. The Bank of England followed suit, raising the key rate by 25bps to 1.0% while the European Central Bank indicated a first rate hike was likely in July. While major central banks continue to grapple with inflation, economic growth risks and recession fears remain high, predominantly in Europe. Having previously adopted a more hawkish tone toward further rate hikes, the elevated risks to economic growth are likely to cloud the global investment outlook.

We shall endeavor to keep you abreast of key events as and when they occur, to ensure you are able to make more informed decisions as we aim to fulfil the fund objectives.